United Nations DP/2010/10

Executive Board of the
United Nations Development
Programme and of the
United Nations Population Fund

Distr.: General
6 January 2010

Original: English

First regular session 2010
19 to 22 January 2010, New York
Item 8 of the provisional agenda
United Nations Office for Project Services

UNOPS estimates for the biennial support budget, 2010-2011

Report of the Advisory Committee on Administrative and Budgetary Questions

Introduction

1. The Advisory Committee on Administrative and Budgetary Questions (ACABQ) has considered the report of the Executive Director of the United Nations Office for Project Services (UNOPS) on the biennial support budget for 2010-2011 (DP/2010/9). During its consideration of the report, the Advisory Committee met with the Executive Director and other representatives, who provided additional information and clarification.

I. UNOPS budget estimates for the biennium 2010-2011

A. Format and presentation

2. The biennial support budget for 2010-2011 is presented for the second time in a results-based format, on the basis of a harmonized framework agreed with UNDP, UNFPA and the United Nations Children's Fund (UNICEF), under which key management results are organized around a common set of 16 functions. The expected management results are aimed at achieving the goals of the 2010-2013 strategic plan adopted by the Executive Board (DP/2009/36) and the 11 strategic performance objectives summarized in paragraph 10 of the budget document. The Committee recalls that the 2008-2009 budget estimates were based on the strategic objectives of UNOPS rather than on the 16 management functions of the common framework. In this connection, the Committee notes the information provided in annex 2 to the budget document on the methodology applied for the harmonization of results-based budgeting, including the areas that require adaptation to accommodate the particular nature of the business model of UNOPS as a self-financed service provider. **The Committee notes the progress made towards closer alignment with the common methodology and harmonized framework**

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used by UNDP, UNFPA and UNICEF. While recognizing the specificities of the UNOPS business model, the Committee encourages UNOPS to continue its collaboration with these entities and to further harmonize the common results-based framework, terminology and methodology wherever feasible, with a view to providing greater transparency, facilitating comparisons between entities and measuring progress against expected results over time.

3. **While noting the progress made in the formulation of the budget for 2010-2011, the Committee considers that further improvements could be made in a number of areas. It finds that the logical frameworks of the 16 management functions are not very informative and also notes that only a single indicator of achievement is put forward for each management function. The Committee is of the view that the performance indicators, baselines and targets of the logical frameworks for each management function should reflect more clearly the management plan of UNOPS and provide a more complete picture of the activities that must be accomplished in order to achieve the management objectives. This would also facilitate monitoring of the progress made. Furthermore, the Committee considers that a brief explanation should be provided when there is a significant variance as compared to the baseline in the performance targets for a given indicator of achievement. The Committee recommends that UNOPS pursue efforts to further develop and refine the presentation and elements of its results-based framework.**

4. The Committee believes that the biennial support budget constitutes a valuable instrument for communicating with Member States and providing a window into the operations of the organization. It is of the view that the budget narrative for 2010-2011 does not provide sufficient information on the assumptions on which the budgetary proposals have been established or the context in which UNOPS operates. The Committee considers that information such as the range of services provided by the Office, its global clients and partners, and an overview of past and projected annual revenue and implementation expenditures, as well as a brief analysis of prevailing business trends, risk factors and the economic climate expected during the budget period would aid the reader in gaining a better understanding of the budgetary proposals, and also make those proposals more accessible to a wider audience that may not be familiar with the activities of UNOPS or be involved with its operations on a day-to-day basis. **The Committee recommends that consideration be given to providing a summary of such information, (some of which is in the annual report of the Executive Director) in future budget proposals.**

5. Upon enquiry, the Committee was provided with some of the above-mentioned additional information on UNOPS clients and partners, as well as on revenue and implementation expenditures for the period 2007-2008, extracted from the annual report of the Executive Director. From the information provided, the Committee notes that the implementation expenditures and revenues were distributed among UNOPS clients and partners in 2007 and 2008, as summarized in table 1.

Table 1. Implementation expenditures and revenues in 2007 and 2008, by clients/partners

	2007		*2008*		*2007*		*2008*	
Fund category	*IE*	*IR*	*IE*	*IR*	*IE %*	*IR %*	*IE %*	*IR %*
United Nations system								
Departments and offices	137,484,599	9,580,174	168,580,408	8,740,604	16.2%	19.0%	16.0%	16.1%
Specialized organizations	3,153,509	226,415	5,254,125	332,780	0.4%	0.4%	0.5%	0.6%
Programmes and funds	422,011,384	24,230,491	629,754,233	31,317,503	49.6%	48.0%	59.7%	57.8%
Research and training institutes	2,491,035	231,349	2,265,735	211,826	0.3%	0.5%	0.2%	0.4%
Other entities	10,014,567	732,222	7,203,888	570,347	1.2%	1.5%	0.7%	1.1%
Subtotal United Nations	575,155,094	35,000,651	813,058,389	41,173,060	67.6%	40.9%	77.0%	76.0%
International financial institutions	120,282,812	7,209,523	24,822,281	1,670,978	14.1%	14.3%	2.4%	3.1%
Inter-governmental organizations	575,428	43,157	297,747	22,416	0.1%	0.1%	0.0%	0.0%
Governments	153,814,127	8,215,093	216,899,415	11,287,131	18.1%	16.3%	20.6%	20.8%
Undetermined •	384,837	22,213	342,660	16,913	0.0%	0.0%	0.0%	0.0%
Grand total	**850,212,299**	**85,491,288**	**1,055,420,491**	**54,170,497**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

IE: Implementation expenditure
IR: Implementation revenue
• This entry pertains to the 2007/2008 implementation expenditure and revenue from projects that had no fund code in the enterprise resource planning system.

6. The Committee also requested, as an example of the role of UNOPS in contributing to the realization of the operational results of its partners, a summary of the activities and implementation partners of the organization in Somalia. The additional information is provided in annex I of this document.

7. In its previous report on the biennial support budget of UNOPS for 2008-2009, the Advisory Committee highlighted the importance of providing information on major expenditure categories under post and non-post costs[1], and recommended that the Executive Board consider the inclusion of such information in future budget submissions (AC/1650). The Committee made similar requests in the context of its reports on the proposed biennial budgets of UNDP, UNICEF and UNFPA. It continues to believe that such a breakdown would ensure greater budgetary transparency and facilitate consideration by the General Assembly of the proposed programme budget of UNOPS. **The Committee reiterates its previous request and recommends that a breakdown of expenditures by major object of expenditure be provided in the context of the proposed biennial support budget for the biennium 2012-2013. Furthermore, an explanation of variances and other costing parameters should also be provided.**

8. A chart of the proposed organizational structure of UNOPS for the biennium 2010-2011 is provided in the budget document (page 3). The Committee was also provided with an updated chart showing the distribution of posts by grade and location – provided in annex II of this document. **The Advisory Committee is of the view that the updated format provides more clarity as to the global**

[1] Other staff costs; non-staff compensation; consultants and experts; travel of representatives; travel of staff; contractual services; general operating expenses; hospitality; supplies and materials; furniture and equipment; grants and contributions.

presence of UNOPS and facilitates its consideration of staffing requirements (see also paragraph 17). **The Committee requests that the detailed organizational chart be provided to the Executive Board at the time of its consideration of the proposed biennial support budget for 2010-2011, and that such a chart also be incorporated in future budget submissions.**

B. Proposals for the 2010-2011 biennial support budget

9. As indicated in paragraphs 17 to 19 of the budget document, the total gross revenue target for 2010-2011 is set at $140.2 million, with a proposed budget of $130.2 million prior to the provision of write-offs (see also paragraph 23 of this document), and $135.2 million after write-offs. This represents an increase of 2.6 per cent as compared to the current gross revenue estimate of $136.6 million for 2008-2009.

10. The Committee notes that the level of the operational reserve is set by the Executive Board and that the reserve is required to provide for 4 per cent of the rolling average of the combined administrative and project expenditures for the last three years (see paragraph 22 of the budget document). For 2010-2011, UNOPS is targeting a contribution of $5 million to the operational reserve. As indicated in paragraph 20 of the budget document, and as a result of this contribution, the level of the reserve would reach approximately $44 million by the end of 2010-2011 and would be sufficient to meet the required level, which, based on current estimates of revenue, amounts to $36.8 million. The closing balance of the operational reserve at the end of 2008-2009 is projected at $36.1 million, leaving a gap of $0.7 million to be filled.

11. A summary of budget proposals is provided in chapter III, section A of the budget document. Resource requirements by management function are provided in chapter III, section B, and summarized table 3 of the budget document.

12. As indicated by the Executive Director, the definitive financial performance data for 2008-2009 will depend greatly on actual revenues and the determination of write-offs or bad debt provisions for historic liabilities. Concerning the revenue targets for 2010-2011, UNOPS indicates that it is prudent to plan cautiously for the biennium 2010-2011 given the current global financial climate, and that predictability is greater for 2010 than 2011.

13. The Committee notes that the fees for UNOPS services are currently set at 4 per cent for transactional work, such as standard procurement, and a minimum of 7 per cent for project management. The average level of fees charged in 2009 is estimated at 5.6 per cent. For the upcoming period, UNOPS anticipates a slight increase in the average level of the fees charged for its services, to 5.86 per cent. The Committee notes, however, that in future, once the operational reserve has been fully replenished and all historic liabilities are met, UNOPS may reduce its rates from the current levels (see paragraph 22 of the budget document).

14. The Committee is of the view that the information provided on revenues and expenditures in table 1 and the narrative of the budget document provides insufficient details on the source of the revenues, how the rates for overhead charges are established, and the changes in the level of costs (see paragraphs 4 and 7 of this document). For example, few explanations are provided regarding the significant variance under corporate costs, which would more than double from some $9.3 million in the current biennium to over $23 million in 2010-2011, or the decrease of $7.5 million in non-staff related costs (see table 1 and paragraphs 25-

26 of the budget document). **The Committee recommends that additional details on the cost components under these categories of expenditure, as well as explanations of the key variances in the resources proposed for 2010-2011 as compared to 2008-2009, be provided to the Executive Board at the time of its consideration of the proposed biennial support budget for 2010-2011.**

15. The Committee notes that a provision of $1 million is proposed under corporate costs to support staff mobility (see paragraph 26 of the budget document). Upon enquiry, the Committee was provided with details on the manner in which this sum was determined, along with the underlying costs. The requirement of $1 million would provide for the rotation of 18 individuals eligible for the programme over the two-year budget period, taking into account relocation, travel and assignment grant costs. The Committee notes, with interest, the quantification of resource requirements for the implementation of the UNOPS mobility policy, which adds transparency to the budgetary proposals. **The Committee requests that information on the costing parameters related to the UNOPS mobility policy be provided in future budget submissions.**

16. **The Committee shares the Executive Director's concerns with respect to the uncertain financial outlook for 2010-2011, given the global economic downturn. While the Committee commends UNOPS on the progress made towards stabilizing its financial health, it urges UNOPS to exercise prudence in projecting revenue estimates and managing the resources at its disposal in 2010-2011, so as to secure the gains achieved thus far and also to ensure the continued financial viability of the Office over the medium to long-term** (see also paragraph 20 in this document).

17. A summary of posts by category and location is provided in table 2 of the budget document. The Committee notes that a net reduction of 46 posts is proposed in the regional offices. As indicated in the budget document, this takes into account the removal of unfunded positions in the current biennium and the alignment of posts to the new organizational structure and strategic priorities of UNOPS. In addition, staff resources are consolidated for greater efficiency in the areas of project management, internal audit and investigation. Upon enquiry, the Committee was provided with additional information on the vacancy rates, summarized in the table below.

Table 2. Vacancy ratio for core posts (included in the administrative budget staffing table)

	AFO	*APO*	*EMO*	*HQ*	*LCO*	*NAO*	*UNOPS*
Ratios	*Africa Regional Office*	*Asia and the Pacific Regional Office*	*Middle East Regional Office*	*Headquarters*	*Latin America and the Caribbean Regional Office*	*North America Regional Office*	
Filled	68.54%	82.22%	75.00%	79.84%	57.97%	89.04%	75.51%
Vacant	31.46%	17.78%	25.00%	20.16%	42.03%	10.96%	24.49%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Posts	89	45	40	129	69	73	445*

* Does not include the India procurement office which is being funded by the UNOPS administrative budget, and the formerly approved positions in the Middle East office in Dubai.

C. Post reclassification exercise

18. In its previous report of December 2008 (AC/1673), the Committee expressed reservations with regard to the implementation of the outcome of the comprehensive post classification exercise undertaken in 2008-2009. The Advisory Committee considered that, in view of the large number of posts to be reclassified, UNOPS should adopt a phased approach to the implementation of the recommendations of the classification review, and also drew the attention of the Executive Board to the anomalous situation which would result from the upgrade of the post of Deputy Executive Director to Assistant Secretary-General (ASG), whereby the posts of the two most senior officials of UNOPS would be classified at the ASG level.

19. Upon enquiry, the Committee was provided with additional information on the status of the implementation of the post reclassification exercise. It was informed that the Executive Director had decided that no upgrades of existing staff would be processed during 2009, with a view to ensuring that the global financial crisis did not affect the organization to the extent that it would make the approval of upgrades unsustainable in the medium to long term. Furthermore, it had been decided that all the five regional director posts and three senior director positions at headquarters would be provisionally confirmed for classification at the D2 level. However, the incumbents would not be automatically promoted to a higher level post but through a results-based assessment of their performance in the 2008-2009. A similar process is to be followed for the reclassification of posts at lower grades.

20. **The Committee commends the cautious approach adopted by UNOPS, which, in effect, constitutes a phased implementation of the recommendations of the classification review. As indicated in paragraph 16 of this document, the Committee believes that the prevailing economic climate warrants prudence in managing resources. It emphasizes that the implementation of the reclassification exercise should continue to proceed in a phased manner, in a way that ensures the sustainability of the new post structure. Furthermore, the Committee considers that the anomalous situation referred to above, in which the posts of the two most senior officials of UNOPS would be classified at the same level, may present some management challenges. The Committee trusts that any measures that may be required to clarify coordination, accountability and reporting arrangements will be put into place so as to avoid any potential complications.**

D. Implementation of the recommendations of the Board of Auditors

21. The Committee commented on the report of the Board of Auditors on UNOPS for the biennium ended 31 December 2007 (A/63/5/Add.10) in the context of its previous report on changes to the financial regulations and rules of UNOPS in December 2008 (AC/1673), as well as in its earlier report on the reports of the Board of Auditors (A/63/474).

22. In its report A/63/5/Add.10, the Board issued a considerable number of recommendations on financial and management matters, in areas such as inter-fund accounts, asset management and project controls. The Committee notes from the report of UNOPS on the implementation status of the recommendations of the Board of Auditors for the biennium 2006-2007 (DP/2010/14) that 67

recommendations were accepted, 43 have been implemented, 24 are in progress and a target implementation date has been set for all outstanding recommendations. **The Committee commends UNOPS for the efforts deployed to implement the recommendations of the Board and encourages the organization to complete implementation of the outstanding recommendations expeditiously.**

23. Concerning the issue of the inter-fund balances between UNOPS and UNDP, in paragraph 127 of its report the Board recommended that UNOPS, in collaboration with UNDP, settle the inter-fund balances in cash on a regular basis in order to enforce regular reconciliations. In paragraph 122, the Board raised concerns about the long outstanding balance of $9.9 million that had not been resolved since its last report. The Committee notes that nearly all un-reconciled amounts date from the period between 1998 and 2005, prior to the implementation of a common enterprise resource planning system at UNDP and UNOPS. In paragraph 9 of report DP/2010/14, the Executive Director indicated that UNOPS expected to complete the reconciliation exercise by the time the 2008-2009 accounts are closed. The Committee notes that the proposed biennial support budget for 2010-2011 includes a provision of $5 million for write-offs. It was informed that this issue will be resolved in 2010-2011, either through negotiations with UNDP or through write-offs. **The Committee trusts that every effort will be made to find an equitable solution for this long outstanding issue during 2010-2011.**

24. In paragraph 185 of its report (A/63/5/Add.10), the Board of Auditors recommended that UNOPS perform a detailed analysis of its exposure to currency fluctuations and identify methods of managing the foreign exchange risk. The Committee notes that UNOPS intends to employ a three-pronged approach to the risk mitigation strategy, starting in 2010 (DP/2010/14, paragraph 33). **The Committee recommends that UNOPS collaborate with the other organizations of the United Nations system through the High-level Committee on Management of the Chief Executives Board for Coordination in developing its risk mitigation strategy, and that UNOPS share the experience and knowledge gained in this regard with those entities. The Committee further requests that information on the parameters, effects and budgetary impact of the risk mitigation policy be provided in the context of its budget proposals for 2012-2013. The Committee intends to follow up on this issue, which is of system-wide concern.**

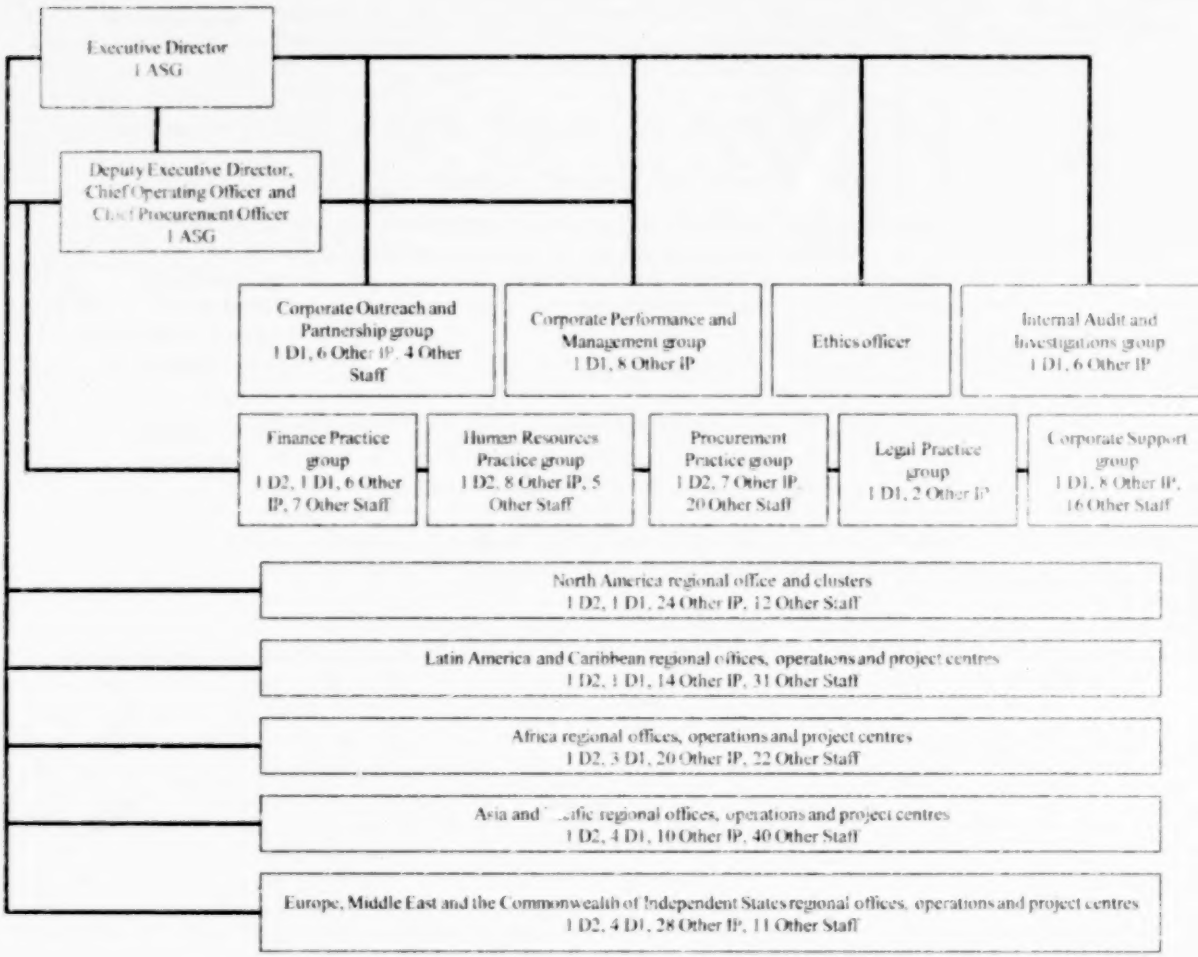
Annex I
Activities and implementation partners of UNOPS in Somalia

Partner / funder	*Project description*
United Nations Children's Fund (UNICEF)	1. Under the general framework of the UNICEF "Back to School" campaign, UNOPS supports UNICEF through the construction of 23 schools and eight medical health centres.
	2. UNOPS also provides logistical and monitoring support to UNICEF. Examples include: a review of UNICEF warehousing and supply across South Central Somalia; movement of equipment within high risk areas; a capacity for monitoring partners in 2009, currently being designed.
UNDP	3. UNOPS supports the 'rule of law' programme through the construction and rehabilitation of courts, prisons and other judiciary and policing structures. UNOPS provides turnkey services from assessments, design, tendering, contracting supervision and quality assurance.
	4. UNOPS provides support to UNDP reconstruction activities (Somalia wide) through supervision of rehabilitation/construction works.
	5. UNOPS supports the improvement of health services in South Central Somalia through funding from the World Health Organization (WHO), UNDP and the Government of Italy.
	6. UNOPS is implementing the 'Somalia support secretariat' project under the direction of UNDP. UNOPS provides inputs and services which include, but are not limited to, the recruitment and administration of project personnel, procurement of equipment and supplies, sub-contracting services and works and providing other general administration support as necessary to the secretariat.
Central Emergency Response Fund	7. With funding from the central emergency response fund, UNOPS is conducting assessments of 13 airfields in Somalia to map requirements for airstrip improvements and enhancements.
WHO	8. Under the framework agreement signed between UNOPS and WHO in 2007, UNOPS is providing support for the development of infrastructure. UNOPS constructed the WHO offices and guest houses in Wajid, the Baidoa outpatient department and department of Galkayo hospital.
International Labour Organization (ILO)	9. Under an ILO action designed for Central and Southern Somalia for the implementation of employment intensive infrastructure and waste management projects, UNOPS provides all contracting and project administration services, including the recent employmeat of 2,000 daily paid laborers in Mogadishu.
Transitional Federal Government	10. The district-based peace-building and reconciliation project supports the convening of dialogue and reconciliation processes at the district level in Somalia.

Partner / funder	*Project description*
International Fund for Agricultural Development (IFAD)	11. UNOPS supports the North-Western integrated community development programme (Somaliland). It is implementing the integrated community development programme as a service provider to IFAD and provides inputs and services which include, but are not limited to, the recruitment and administration of project personnel, procurement of equipment and supplies; sub-contracting services and works and providing other general administration support as necessary to the project management unit.
United Nations Support Office for the African Union Mission to Somalia	12. UNOPS is currently providing 16 communications experts in Mogadishu for support to the African Union Mission to Somalia for a period of 14 months to install, maintain and operate communication networks ('VSAT', 'PABX', 'VHF/UHF/HF', 'LAN/WAN', broadcasting). 13. Pending final approval, UNOPS will provide an additional six specialists in Mogadishu to facilitate support provided by the United Nations Support Office for the African Union Mission to Somalia. The specialists will comprise one team leader, one logistician, one supply officer, one vehicle mechanic, one movement control officer, and short term deployment of surveyors to map the African Union Mission to Somalia-controlled area at the airport. This will facilitate planning for construction of various premises and storage areas, which is also expected. 14. Pending final approval, UNOPS will construct a minimum operating security standards-compliant, 75 person mission headquarters and level II hospital within the African Union Mission to Somalia-controlled area at the Mogadishu airport.
United Nations Office on Drugs and Crime (UNODC)	15. Anti-piracy project: UNOPS, working in partnership with UNODC, supports the rehabilitation of a court and a police evidence room to facilitate trials of Somali pirates.

Annex II

Proposed organizational structure of UNOPS showing the distribution of posts by grade and location


Executive Director
1 ASG
Deputy Executive Director, Chief Operating Officer and Chief Procurement Officer
1 ASG
Corporate Outreach and Partnership group
1 D1, 6 Other IP, 4 Other Staff
Corporate Performance and Management group
1 D1, 8 Other IP
Ethics officer
Internal Audit and Investigations group
1 D1, 6 Other IP
Finance Practice group
1 D2, 1 D1, 6 Other IP, 7 Other Staff
Human Resources Practice group
1 D2, 8 Other IP, 5 Other Staff
Procurement Practice group
1 D2, 7 Other IP, 20 Other Staff
Legal Practice group
1 D1, 2 Other IP
Corporate Support group
1 D1, 8 Other IP, 16 Other Staff
North America regional office and clusters
1 D2, 1 D1, 24 Other IP, 12 Other Staff
Latin America and Caribbean regional offices, operations and project centres
1 D2, 1 D1, 14 Other IP, 31 Other Staff
Africa regional offices, operations and project centres
1 D2, 3 D1, 20 Other IP, 22 Other Staff
Asia and Pacific regional offices, operations and project centres
1 D2, 4 D1, 10 Other IP, 40 Other Staff
Europe, Middle East and the Commonwealth of Independent States regional offices, operations and project centres
1 D2, 4 D1, 28 Other IP, 11 Other Staff